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IN THE

Supreme Court of the United States

OCTOBER TERM, 1967

No. 1338

AMP INCORPORATED, *Petitioner*

v.

THE UNITED STATES, *Respondent*

Brief Amicus Curiae of the Electronic Industries Association in support of Petition for a Writ of Certiorari

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PRESS OF BYRON S. ADAMS PRINTING, INC., WASHINGTON, D. C.

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Pursuant to Rule 42 of the Rules of the Supreme Court of the United States, the Electronic Industries Association respectfully files this brief amicus curiae in support of the Petition for Certiorari filed in behalf of AMP Incorporated in the instant case. Both counsel for Petitioner, AMP Incorporated and counsel for Respondent, United States of America have given their consent to the filing of this brief.

INTEREST OF THE AMICUS CURIAE

The Electronic Industries Association (herein referred to as EIA) is composed of more than 300 member companies engaged in the manufacture of electronic equipment and components. It is the national association representing the fifth largest manufacturing industry in the United States, with gross annual sales in excess of $20 billion. The vast majority of its members are extensively engaged in contracting with the Department of Defense as prime contractors, subcontractors, or both. Major electronic companies, acting as prime contractors for a major weapons system or similar project, award literally thousands of subcontracts, to which the varied provisions of the Armed Services Procurement Regulations are applicable. In 1966 sales of electronic products in the United States Government market were in excess of $10 billion.

The decision of the Court of Claims primarily affects the rights which have accrued to the United States Government over approximately the past twenty years under its research and development contracts with industry. The electronic equipment and communications industry is second only to the aircraft and missiles industry in its expenditures in the area of research and development. In 1965 the electronics industry spent almost $2 billion for this purpose. Of this amount the United States Government furnished 66 per cent or $1.25 billion, while that industry furnished $650 million of its private funds for such purpose. During 1965 American industry as a whole spent in excess of $14 billion for research and development, 54.7 per cent, or about $7.8 billion being supplied by the Federal Government and 45.3 per cent, or about

$6.4 billion being paid for by private industry funds. The total amounts expended by the Government and by industry over the past twenty years obviously are of enormous magnitude,

In view of the above, as representative of members which have expended billions of their private funds in research and development, EIA is concerned over the effect of the Court of Claims' decision on the rights which may accrue to the United States Government with respect to the fruits of such private research and development and the inhibitions which such decision may create in private industry contracting to do research and development for the United States Government.

THE ISSUE

The specific issue is whether the grant by a contractor to the Government of a royalty-free license to practice a "Subject Invention", as that term is defined in (a)(i) of the contract clause provided for in paragraph 9-107.1 of ASPR, Section IX, effective as of July 1, 1949, also grants to the Government a royalty-free right to reproduce such "Subject Invention" under any dominant patent owned or controlled by the contractor.

(1) Court of Claims Ignored Public History of Contract Clause

The Court of Claims, in the decision below, based its holding that the Government had obtained a royalty-free license to reproduce the Subject Invention under the Petitioner's dominant Vinson patent on the ground that such a license is to be implied by a legal estoppel against the Petitioner from the license grant in Article

38(b) of the Petitioner's contract with the Government. Said Article 38(b) corresponds exactly to paragraph (b) of the Article prescribed by the July 1, 1949 ASPR 9-107.1. After quoting from the language of Article 38(b), the Court of Claims stated:

> "But it is also a cardinal rule that the parties' intent must be gathered from the instrument as a whole. International Arms & Fuze Co. v. United States, 73 Ct. Cl. 231 (1931). Thus, in order to understand the above cited language, we must look to the whole thrust and purpose of Article 38."

However, the Court failed to give effect to the extensive public history of the language of Article 38 which gives a "thrust and purpose" to it, which is the opposite to the meaning assigned to that article by the Court.

(2) History of Contract Clause Article 38

Appendix G to the Petitioner's Petition describes the origins of the July 1, 1949 ASPR IX and mentions the exhaustive consideration given to it by an Armed Services Patent Policy Review Board in 1952. One of the organizations which supplied statements to that Board was the Joint Electronics Industries Committee of which the Electronic Industries Association was then a part.

The review given to ASPR IX by the above Board was stimulated by a controversy between industry and Government procurement officers. The following description of that controversy, and of the evolution of the revision of ASPR IX which eventuated in the 1955 revision referred to by Mr. Falvey's testimony, is reported in the Fourth Annual Report of the Activities

of the Joint Committee on Defense Production and Controls (84th Congress, 1st Session) October 20, 1954:

> "Since its adoption in 1947 this regulation has been the source of considerable controversy between practically all segments of industry and procurement officers, due to certain provisions which contractors claim caused undue hardship financially as well as competitively by jeopardizing their market position.
>
> "One of the most general objections has been the claim that undue pressure was frequently applied by overzealous procurement officers in demanding free Government rights to proprietary or background patents beyond what was intended under the rules, particularly in the case of small businesses whose very existence frequently depends on participating in Government contracts. . . .
>
> "Under the new proposed regulation contracting officers are not expected to insist upon background patents when negotiating research and development contracts. Since this has been one of the principal objections to business, the elimination of this procedure should materially help to encourage industry toward much wider research in the interest of defense products. . . .
>
> "The fact remains, however, that only insofar as our Government establishes equitable policies and procedures in its patent dealings with industry as a whole, can it hope to create increasing initiative among individuals and industries. . . .
>
> "It is to this end that your committee urges the Department of Defense to bend every effort in its consideration of the solution of this important Government-industry problem that is already long overdue."

The controversy referred to above did not arise under ASPR 9-107.1 but rather under ASPR 9-107.3. As set

forth in Petitioner's Appendix F-2, the Review Board's Report of August 12, 1952 contains the following:

"9-107.3 Reproduction Rights Under Background Patents

"This paragraph has probably been misconstrued, misinterpreted, and misunderstood more than any other paragraph in the Regulation.

"The title is misleading when the term 'reproduction rights' is read to mean the right to use proprietary information. 'Reproduction rights' as used here, coupled with the term 'background patents' meant a 'license under contractor patents', other than 'Subject Inventions', when the contractor's dominant patent disclosed an invention incorporated in the end product of the contract."[1]

Since, however, the Court of Claims based its decision solely on the language of Article 38(b) the Petitioner in his Petition (page 7) properly points out that the Review Board made it clear that the grant under Article 38(b), corresponding to ASPR 9-107.1, not only does *not* grant, but specifically negates the grant of a license under a dominant patent of the contractor

[1] "Background Patent" is defined in the July 1, 1949 ASPR 9-101.4 as "a patent, other than a foreground patent, based upon inventions which relate specifically to the manufacture, construction or use of the subject matter of the contract and under which the contractor has acquired, or prior to completion or final settlement of the contract may acquire, the right to grant a license without obligation to pay compensation to others solely on account of such grant." The Vinson Patent is therefore not a background patent since it was acquired by the Petitioner after final settlement of the contract. However, it is a dominant patent over the Byrem patent. However, the Court of Claims made no distinction between "background patents" and "dominant patents" and based its decision solely on the interpretation of the grant in Article 38(b).

by the language—: "Nothing contained in this paragraph shall be deemed to grant any license under any invention other than a Subject Invention."

The July 1, 1949 ASPR IX itself makes the same point when it states under 9-107.3 (see Petitioner's Appendix D-13), "The grant of a license or title to the Government under foreground patents, as hereinabove in this part set forth, does not give the Government a free right to practice such foreground patents if the contractor owns or has control of a dominant background patent."

The controversy was resolved by the issuance dated January 3, 1955 of a revised form of ASPR IX. In a statement issued by the Department of Defense Office of Public Information, dated January 7, 1955[2] the Department of Defense stated that one of the principal changes was "the elimination of the requirements of ASPR 9-107.3 for the reproduction rights license under background patents . . .". However, the revised ASPR retained 9-107.1, including the clause corresponding to Article 38(a) and (b) of the Petitioner's contract, unchanged. Clearly, the Federal Government has consistently represented to industry that the granting clause of Article 38 never was intended to grant to the Government any rights whatsoever under any dominant patent whether such dominant patent was a "background patent" or a later acquired patent.

(3) The Court of Claims Decision, If Allowed To Stand, Will Adversely Affect Billions of Dollars of Private Rights

As pointed out above, industry has spent billions of dollars of its private funds to conduct research and development. For at least twenty years it has con-

[2] Exhibit A Annexed.

tracted with the Department of Defense with the assurance of that Department that the grant to the Government of a free license under "Subject Inventions" did not grant to the Government any rights to reproduce such Subject Inventions under any of industries' other patents which might dominate any such Subject Invention.

Unless the decision of the Court of Claims is revised or otherwise clarified, the fruits of such billions of dollars of private research may be appropriated by the Government without any compensation to the private owners of the patents concerning such fruits. To do so would clearly be unconscionable.

CONCLUSION

The Electronic Industries Association believes that this decision of the Court below is not legally sound, and therefore we respectfully support the petition for certiorari made herein and urge that it be granted.

Respectfully submitted,

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EXHIBIT A

1/14/55

DEPARTMENT OF DEFENSE
OFFICE OF PUBLIC INFORMATION
Washington 25, D. C.

IMMEDIATE RELEASE

JANUARY 7, 1955 LI 5-6700 Ext. 53201, 53176

PROCUREMENT REGULATION PATENT SECTION REVISED

Revision No. 1 of the Armed Services Procurement Regulation, Edition of 1955, Part 1 of Section IX on the subject of "Patents" has been sent to the Government Printing Office for printing, the Department of Defense announced today.

This revision is the result of approximately three years of work, which began with the hearings held by the Patent Policy Review Board beginning in January 1952. It will be issued about January 24, 1955, and is effective 90 days after issuance, but may be complied with upon receipt.

Principal changes in the Revision from the current edition are the elimination of ASPR 9-107.2 providing for title to patent rights under specified conditions; the elimination of the requirements of ASPR 9-107.3 for the reproduction rights license under background patents and the substitution of a prohibition against negotiating for patent rights under background patents which have been actually reduced to practice as an incident to the procurement of supplies or services; and changes in the "Reporting of Royalties" requirements. One important change in the latter is to excuse contractors from reporting royalties of less than $250.

There is a new provision authorizing a military department to obtain patent rights under an approved product

improvement program when the department is providing substantial financial support for such program.

Little (d) [ASPR 9-107.1, paragraph (d) of the contract clause] providing for reproduction and use of Technical Data has been removed from the "Patent Rights" clause and is now made a separate contract provision to be retained only until the revision of Part 2, Section IX, is completed on the subject of "Copyright and Technical Data," at which time the subject matter of little (d) will be treated in Part 2.

The treatment of "patent indemnity" has been made more complicated in order to provide greater flexibility to meet different conditions of contracting, but with a general trend toward reducing the amount of indemnity obtained. For instance, indemnity is not to be obtained in contracts which are clearly not for standard commercial supplies, except under rare circumstances. Indemnity is made optional for negotiated contracts, and then only for supplies which are standard commercial *with the contractor* concerned. In advertised contracts, the indemnity is with respect to supplies which are standard commercial *with any supplier*. Two clauses are provided for use in advertised contracts—one which predetermines the applicability of the indemnity at the time of the contract by determining that the supplies are standard commercial; and a second clause which permits the determination of whether the supplies are standard commercial and, therefore, the applicability of the indemnity, to be made at some later time, presumably when a charge of infringement is made. In negotiated contracts, only the predetermined clause may be used.

Numerous other changes of minor nature have been made for the purpose of clarifying the intent of the instructions or the language of the contract clauses.

Applicability of each of the contract clauses to domestic and off-shore procurement is made clear.

Some of the issues of general interest were resolved as follows:

(1) The government will continue to obtain license rights under inventions first actually reduced to practice. However, the circumstances under which inventions which have been covered by a patent application prior to the contract may be excluded, are clarified and increased. Of particular interest to small concerns is a new exclusion which reads: "The invention is useful only for military purposes and the contractor does not have facilities for furnishing the item to the Government in production quantities."

(2) The Government will retain the right to request foreign rights under inventions which the contractor does not choose to patent in a foreign country.

(3) The instructions as to when a patent rights clause is to be included in contracts have not been limited to those contracts wherein research or development work is "specifically called for." Instead, the test is whether "one of the purposes of the contract is experimental, developmental or research work." The instructions do, for the first time, prohibit the use of the Patent Rights clause unless the contract has experimental, developmental or research work for one of its purposes.

(4) The contractor, in the "Reporting of Royalties" clause, is required to furnish a brief description of the royalty bearing unit or process and both the amount and rate of royalties.